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"Debt Swaps" Create New Conservation Opportunities

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Two U.S. debt treatment statutes, the Enterprise for the Americas Initiative (EAI) and the Tropical Forest Conservation Act (TFCA), have received little attention, but between them they stand to generate over $237 million for natural resource conservation and related objectives in 14 countries. These figures will quickly grow as new TFCA agreements are currently under negotiation.

In addition, the conservation funds established by EAI and TFCA have leveraged over $141 million from grantee contributions, investment income and other sources. These figures may not be significant in the context of total developing country debt burdens, but for those local NGOs and community groups struggling to identify finance for conservation efforts, the EAI and TFCA have been significant contributors. In addition, these statutes have great value for the strengthening of civil societies in these countries.

In the early 1990's the U.S. Government made bilateral debt available for reduction through "debt-for-nature swaps." In recent years, these debt treatment mechanisms have diversified to the point where they present new opportunities for the U.S. foundation community involved in conservation efforts overseas. The scope of possible engagement ranges from participation in subsidized debt swaps to establishing a new account with an existing fund.

Additionally, local funds and foundations could benefit from the management expertise and lessons learned from an experienced U.S. counterpart. Any or all of these initiatives would greatly serve conservation and institutional strengthening in the biologically rich tropics.

Subsidized Debt Swaps

Conservation finance is, quite simply, about getting capital into the hands of those who are most capable of effectively protecting and/or conserving natural resources. What frequently varies most is where, and to whom, to direct funds and the extent to which "donors" in-

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crease the capabilities of those managing the conservation effort. With the evolution of the conservation finance mechanisms, ***the opportunity for cost-sharing leverage and synergy has never been greater.***

Although the term "debt-for-nature swaps" is still used generically, it is perhaps an unfortunate legacy of the 1980s when such agreements were created using commercial debt in secondary markets. When bilateral debt became available for debt treatment for conservation in the early 1990s, the term "swap" was used exclusively when third party (private) funds were used in what would otherwise have been a government-to-government agreement.

In fact, there are two debt treatment mechanisms in addition to the swap identified in the TFCA statute: debt restructuring and debt buy-backs. In all three instances, the difference in the face value of the debt and the book value (a risk adjusted Net Present Expected Value) is the basis for the debt reduction. With each mechanism, the reduced debt is still owed to the U.S. Treasury, the difference is in who "buys down" the debt. In the case of the debt swap, it is the third party (often a large international NGO).

In 2001, an innovative hybrid mechanism was created. The Nature Conservancy (TNC) offered to buy down a portion of Belize's debt to the U.S. Government if the U.S. Treasury did likewise. Since then, this combination of a debt restructuring and a debt swap, now referred to as a "subsidized debt swap" has occurred in three of the last four TFCA negotiated agreements (Belize, Peru, Panama) and may occur in Colombia, Jamaica and Sri Lanka in 2004. Conservation International, World Wildlife Fund and TNC have participated in TFCA swaps to date.

Why are these subsidized debt swaps attractive to these NGOs? The benefits to any contributing third party include: tropical forest conservation (using one's own strategic conservation valuation scheme); significant financial leverage; influence on the use of the local currency cash flow streams generated from the transaction; and, satisfaction gained by its donor membership base from the demonstration of tangible benefits.

When debt treatment mechanisms that exclusively use public funds are selected, the outcomes are highly prescribed by the statutes. However, when private funds are used, as in the subsidized debt swaps, the outcomes are more varied. The routing of the generated cash flows and the management structures used to administer those cash flows can vary. Herein exists a real opportunity for contributing third parties.

For example, cash flows could benefit specific local NGOs, specific protected

areas or benefit civil society more broadly by establishment of competitive grants funds. The management structure could be as formal as a board of directors or as informal as an oversight committee. The outcome simply requires consensus among the negotiation parties (including the U.S. and debtor governments). For a private contribution equaling 20 percent of the U.S. Government contribution, the value of the private leverage on agreement outcomes can be potentially quite significant.

Establishing New Accounts

Even without participation in the design and creation of a new fund or foundation, U.S. foundations can simply establish new accounts with an existing fund or simply contract with the existing fund for grant management services. There are potentially many benefits to doing so.

Each of the EAI or TFCA funds includes a U.S. Government representative on either the Board of Directors or the Oversight Committee. The U.S. Agency for International Development (USAID) Mission Director is most frequently delegated that authority. In addition, each fund is required by the bilateral agreement to submit annual reports, annual plans and independent audits to the EAI/ TFCA Secretariat in Washington, D.C. The Secretariat also sponsors periodic independent evaluations of the funds. Any or all of this could be used to the advantage of the U.S. foundation.

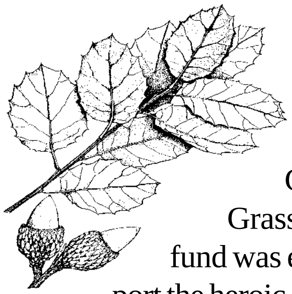
The synergies to be gained by identifying creative ways to combine efforts are substantial. U.S. foundations with limited staff capabilities overseas could work through the established funds to increase their capabilities in field communications, reporting, documentation of tax exempt status, networking (sharing best practices, knowledge management, economies of scale), marketing, and grant management, including screening of grant applicants, capping administrative expenses, monitoring and evaluations, and measuring impacts.

In addition, the U.S. foundation's agreement with the fund could be designed to maintain control in decision making (e.g. in program priorities or grant approval). This could be accomplished directly by the addition of a board member specific to the contributed account. This would also serve to strengthen the board capabilities of the local fund.

Despite all of the potential advantages, the primary attraction for collaboration remains the leveraging of one's monies for achievement of one's conservation objectives. This is certainly consistent with the USAID's institutional objective of learning how to better work in partnership with the private sector. It also serves the fund's objectives of making the transition to a completely private foundation, accommodating additional donors, providing additional services and creating an endowment size for necessary for long-term conservation efforts.

There are eight existing EAI funds (Argentina, Bolivia, Chile, Colombia, El Salvador, Jamaica, Peru, and Uruguay), six existing TFCA agreements (Bangladesh, Philippines, Panama, Peru, El Salvador, and Belize) and several others planned (Jamaica, Colombia, Sri Lanka). As the recent subsidized debt swaps have demonstrated, the innovative outcomes are limited only by our imaginations. Let us not forgo potential opportunities for improved synergies and efficiencies in natural resource conservation for lack of knowledge about the possible mechanisms.

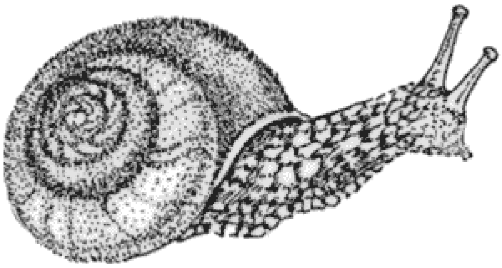
Tides Foundation Supports Efforts to Protect California Wilderness



Efforts to preserve wildlands and biological diversity in the Golden State will be supported for a second year through the California Wildlands Grassroots Fund (CWGF). The fund was established in 2002 to support the heroic efforts of community-based activism to preserve California's open space.

CWGF will support conservationists advocating for the permanent protection of intact wildlands on both public and private lands in order to help preserve California's wilderness and native biological diversity. CWGF will provide a broad range of traditional and non-traditional support to small nonprofit organizations and individual activists with a demonstrated ability and commitment to conserve California's natural landscapes, ecosystems, plants and wildlife. CWGF will particularly target geographic areas and advocacy efforts that have not received significant foundation support.

Tides Foundation plans to award over $100,000 annually through this fund. Applications for grants of up to $5,000 will be accepted on an ongoing basis.



Member News

In mid-November, **Camilla Seth** will leave her position as Program Officer for the Environment at the Surdna Foundation to become Vice President for Environmental Affairs at Citigroup.

Eric Holst has left the Doris Duke Charitable Foundation to become Executive Director of the Resources Legacy Fund, a non-profit organization dedicated to maintaining and enhancing the quality of life by supporting conservation projects throughout California.

Nicole Chevalier (formerly Nicole Smith) has been promoted to Program Officer at the Emily Hall Tremaine Foundation. She has been with the Tremaine Foundation for three years and covers both the Open Space and Global Warming program areas.

At the end of October, **Avecita Chicchon** left the John D. and Catherine T. MacArthur Foundation and moved to New York to become the Director for Latin America Programs at the Wildlife Conservation Society (WCS). She will be responsible for programs and country offices in Central America and in tropical and temperate South America.

Elizabeth Chadri has joined the MacArthur Foundation as Program Officer for Africa in the Conservation and Sustainable Development Program. Elizabeth, originally from Kenya, has been with African Wildlife Foundation (AWF) since 1994.

Conservation Biology Citations

Applied ecology and conservation biology are particularly dynamic fields of study. Current research is exploring increasingly sophisticated and creative means for problem-solving while practitioners are forced to adapt quickly to a constantly shifting field of needs and values. The following short list of references from the last year is meant to capture some of these trends and developments as well as include some innovative or provocative publications relevant to the conservation of biodiversity.

Czech, Brian. 2003. Technological progress and biodiversity conservation: A dollar spent, a dollar burned. *Conservation Biology* 17(5): 1455-1457.

Ferraro, P.J. and A. Kiss. 2002. Direct Payments to Conserve Biodiversity. *Science* 298: 1718-1719. (in Policy Forum).

Groves, C. 2003. Drafting a Conservation Blueprint: A Practitioner's Guide to Planning for Biodiversity. Island Press, Washington, D.C.

Groves, C.R., D.B. Jensen, L.L. Valutis, K.H. Redford, M.L. Shaffer, J.M. Scott, J.V. Baumgartner, J.V. Higgins, M.W. Beck, and M.G. Anderson. 2002. Planning for biodiversity conservation: Putting conservation science into practice. *BioScience* 52:499-512.

Margules, C.R., and R.L. Pressey. 2000. Systematic conservation planning. *Nature* 405:243-253.

Noss, R.F. 2003. A checklist for wildlands network designs. *Conservation Biology* 17:1270-1275.

Redford, K.H., P. Coppolillo, E.W. Sanderson, G.A.B. da Fonseca, E. Dinerstein, C. Groves, G. Mace, S. Maginnis, R.A. Mittermeier, R. Noss, D. Olson, J.G. Robinson, A. Vedder, and M. Wright. 2003. Mapping the conservation landscape. *Conservation Biology* 17:116-131.

Reed, J.M., L.S. Mills, J.B. Dunning, Jr., E.S. Menges, K.S. McKelvey, R. Frye, S.R. Beissinger, M.-C. Anstett, and P. Miller. 2002. Emerging issues in population viability analysis. *Conservation Biology* 16:7-19.

Reid, W. and G. Mace. 2003. Taking conservation biology to new levels in environmental decision-making. *Conservation Biology* 17(4): 943-945.

Roberts, C.M., C.J. McClean, J.E.N. Veron, J.P. Hawkins, G.R. Allen, D.E. McAllister, C.G. Mittermeier, F.W. Schueler, M. Spalding, F. Wells, C. Vynne, and T.B. Werner. 2002. Marine biodiversity hotspots and conservation priorities for tropical reefs. *Science* 295: 1280-1284. (in Reports).

Sala, E., O. Aburto-Oropeza, G. Paredes, I. Parra, J.C. Barrera, and P.K. Dayton. 2002. A General Model for Designing Networks of Marine Reserves. *Science* 298: 1991-1993.

Salafsky, N., R. Margoluis, K. H. Redford, and J. G. Robinson. 2002. Improving the practice of conservation: a conceptual framework and research agenda for conservation science. *Conservation Biology* 16: 1469-1479.

Soulé, M.E., J.A. Estes, J. Berger, and C. Martinez del Rio. 2003. Ecological effectiveness: conservation goals for interactive species. *Conservation Biology* 17:1238-1250.

Spector, S. 2002. Biogeographic crossroads as priority areas for biodiversity conservation. *Conservation Biology* 16(6): 1480-1487.

Tewksbury, J.J., D.L. Levey, N.M. Haddad, S. Sargent, J.L. Orrock, A. Weldon, B.J. Danielson, J. Brinkerhoff, E.I. Damschen, and P. Townsend. 2002. Corridors affect plants, animals, and their interactions in fragmented landscapes. Proceedings of the National Academy of Sciences 99:12923-12926.

Western, D. 2003. Conservation science in Africa and the role of international collaboration. *Conservation Biology* 17(1): 11-19.

Call and Response:

Brummitt, N. and E.N. Lughadha. 2003. Biodiversity: Where's hot and where's not. *Conservation Biology* 17(5): 1442-1448.

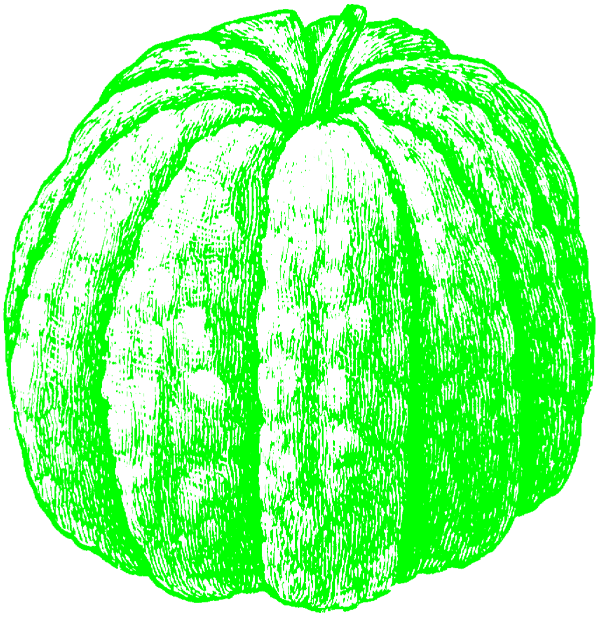
Myers, N. and R.A. Mittermeier. 2003. Impact and acceptance of the hotspots strategy: Response to Ovadia and to Brummitt and Lughadha. *Conservation Biology* 17(5): 1449-1450.

CGBD Working Groups

Climate and Energy

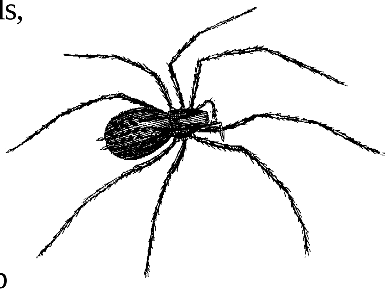
Many new supporters of climate-friendly policies are best engaged by messages and messengers from outside the "climate and energy" field. In areas like the Pacific Northwest and Midwest, interest in renewable energy increasingly is framed around regional economic development opportunities. Other efforts, such as the Energy Future Coalition and the Apollo Alliance, are building relationships with business and labor, also around issues of clean energy, economic development and jobs.

Public health also is proving to be an important dimension of work on greenhouse emissions, deriving from the fact that the combustion of fossil fuels (whether by power plants, cars or diesel engines) is a driver both of climate change and of serious human health problems, from asthma to lung cancers. The Climate and Energy Funders Group is actively exploring these synergies and the grantmaking opportunities they represent.



Health and Environmental Funders Network (HEFN)

Science is rapidly deepening the base of knowledge about links between the health of humans, non-human animals, and ecosystems. This expanding body of science is providing critical information and leverage to work on environment and health. It also makes keeping up with developments a challenge.



Several HEFN and CGBD members have provided support for efforts to make environmental health news more widely accessible. One such venture, Environmental Health Sciences (EHS), has been created by Jenifer Altman Foundation adviser J. Peterson Myers to help increase public understanding of emerging scientific links between environmental exposures and human health.

EHS publishes three websites:
www.EnvironmentalHealthNews.org;
www.OurStolenFuture.org; and
www.ProtectingOurHealth.org (in partnership with the Collaborative for Health and the Environment). EHS also produces *Above the Fold*, a daily email update on news stories and science on environmental health — an easy (and free) way to keep up with what's new in the field.

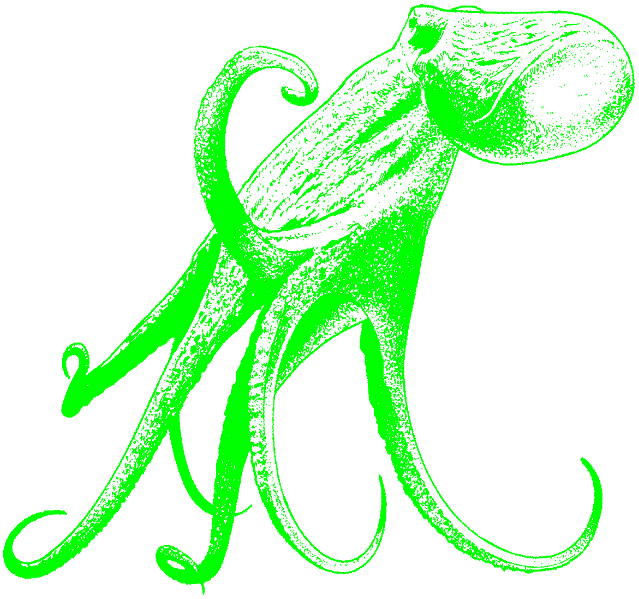
Recent HEFN conference calls have addressed the lessons learned about environmental and health impacts at Ground Zero and in lower Manhattan in the two years since the September 11, 2001 attacks on the World Trade Center; organizing work focused on polybrominated flame retardants and health; and threats to the integrity of science on environmental and public health.

Marine

The Marine Working Group resumed its schedule of "monthly" conference calls in October. The first post-summer call focused on public advocacy for marine conservation, follow-up for the Pew Commission report, and Alaska fisheries management issues.

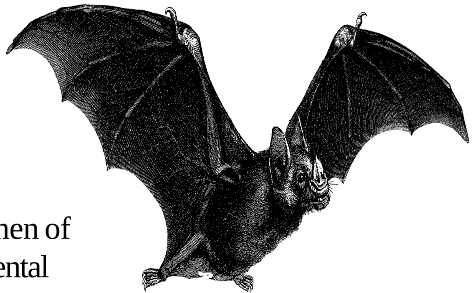
Marine conservation advocates have experienced great frustration in the national and international policy arenas. The ocean conservation community has not had much political clout, while at the same time its opposition has enjoyed significant political support. With this history in mind, the Packard Foundation, Munson Foundation and Oak Foundation have commissioned Jack Sterne and Dave Wilmot of Rising Tide Consulting to prepare a report on opportunities for private foundations to improve ocean policy advocacy. The report and its executive summary will be available soon.

In related news, the Packard Foundation intends to provide substantial support to an effort to coordinate a national campaign to implement the recommendations of the Pew Oceans Commission report and the U.S. Commission on Ocean Policy. The Natural Resources Defense Council, The Ocean Conservancy and Environmental Defense are collaborating on this national campaign.



Forest

The public lands sub-group of the Forest Working Group continues to monitor developments in the implementation of the US Forest Service roadless areas rule. In mid-October, Tom Wathen of National Environmental Trust and Marty Hayden of Earthjustice provided a conference call update for interested funders on administrative, legislative and legal issues regarding the policy. The CGBD will continue to host these calls on a regular basis.



The field of conservation biology offers important tools for grantmakers seeking to stretch their resources to achieve maximum impact. Scientists and foundation colleagues are working together to save biodiversity through the application of conservation biology principles. Forest Working Group members and their CGBD colleagues have taken the lead in planning a funder briefing on conservation biology, to be convened at the American Museum of Natural History in New York City in early December.

Topics to be addressed at the briefing include:

- Development of the Field of Conservation Biology
- Conservation Biology Toolbox
- History of Funder Support for Conservation Biology
- Applying Conservation Biology in Grantmaking – Case Studies from the Field
- Why, When and How is Conservation Biology Utilized in the Development of Public Policy?
- Capacity Building for the Next Generation of Conservation Biology Practitioners

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"Looks as if the clean-air crowd turned out in force."

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